



A.C.N. 004 247 214

Lakes Oil N.L.

Quarterly Activities Report

For the three months ended
30 September 2016

Highlights:

- On 30 August 2016 the Victorian Government announced permanent bans on unconventional gas exploration and fracking within onshore Victoria, and extended the ban on onshore conventional gas exploration until 30 June 2020. The Government's decision is unprecedented, and no basis was presented to substantiate it.
- As a consequence of the Government's decision to ban onshore gas exploration, Lakes Oil's \$7.1 million \$10 converting notes (Notes, ASX: LKOGB) issue, which was launched on 30 June 2016, was adversely affected. One consequence of the ban was that a \$1 million conditional underwriting of the issue ceased to be available. A second consequence was that subscribers for Notes were afforded a 30 day period, until 3 October 2016, during which they could redeem their subscriptions.
- The Notes issue closed on Friday 9 September, with 53,666 Notes issued on Friday 16 September. Following redemptions of 9,367 Notes and issue of a further 58,000 Notes on 3 October, the final number of Notes issued to date is 102,299. The Board of Lakes Oil has the right until 9 December 2016 to place unsubscribed Notes.
- On 3 October 2016 Lakes Oil announced it had acquired from Dark Horse Resources Limited (DHR) a 4% interest for \$400,000 in Navgas Pty Ltd (Navgas), a company with highly prospective exploration interests in both Queensland and South Australia.
- On 6 October Lakes Oil announced it had entered into a Heads of Agreement to acquire the remaining 96% of Navgas from DHR (92.78%) and two individuals (3.22%). Consideration for the acquisition is to be 9,600 million fully paid shares in Lakes Oil. The Navgas acquisition is subject to Shareholder approval. An Independent Expert has been appointed to report to Shareholders on the fairness and reasonableness of the Navgas acquisition.
- Provided the Navgas acquisition proceeds, DGR Global Limited (DGR) has committed to provide a \$1.5 million underwriting for a future rights of shares. Details of the issue have yet to be formulated.

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Directors

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(Resigned 28 September 2016)

CFO/Company Secretary

Melanie Leydin CA

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Auditors

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Melbourne, Victoria 3000

Share Registry

Computershare Investor Services Pty Ltd
Yarra Falls, 452 Johnston Street, Abbotsford
Victoria 3067

Lakes Oil NL is a no-liability company incorporated in Australia. Unless otherwise stated references to 'Lakes Oil' or "the company" or "the Group" refer to Lakes Oil NL and its controlled entities as a whole. Lakes Oil operates a web site which Directors encourage you to access for the most recent company information.

CORPORATE ACTIVITIES:

Government position on onshore exploration

- On 30 August 2016 the Victorian Government announced:
 - permanent bans on unconventional gas exploration and fracking within onshore Victoria; and
 - an extension of the ban on onshore conventional gas exploration until 30 June 2020, with no commitment that the ban will be lifted at that time.
- The Government's decision is unprecedented and no basis has been presented to substantiate it. On the contrary, the decision is at odds with:
 - Victorian Petroleum Legislation, which seeks to promote petroleum exploration and development for the benefit of all Victorians;
 - the fact that conventional exploration activities have been safely conducted across the state, across Australia and around the world for scores of years; and
 - the aspirations of lobby groups, the stated focus of which (according to Lock the Gate Alliance) is variously "unsafe", "inappropriate" or "unconventional" exploration rather than all exploration.
- The Victorian Government's bans, which were first announced 4 years ago (in August 2012), have had a number of adverse effects upon Lakes Oil including:
 - the need for the company to continue to not only fund ongoing corporate costs, but also to continue to pay licence and related fees for exploration permits that cannot be used;
 - difficulties with capital raising, discussed below; and
 - erosion of Shareholder value.

Capital Raising

- The capital raising, by way of a \$7.1 million non-renounceable rights issue of \$10 listed unsecured converting notes (Notes), that was launched by way of a Prospectus issued on 30 June 2016 closed on Friday 9 September 2016.
- Three Supplementary Prospectuses were issued during the course of the capital raising, as follow:
 - The First Supplementary Prospectus was issued on 2 August 2016 to extend the Closing Date of the Note offer from 5 August to 26 August 2016 and to announce that a \$1 million conditional underwriting had been put in place. The underwriting was conditional upon the Victorian Government making an announcement that would allow the company to recommence onshore exploration drilling activity.
 - The Second Supplementary Prospectus was issued on 23 August 2016 to further extend the Closing Date (and other relevant dates) of the Note offer. The Closing Date was extended to 9 September 2016. The extension was required since it had become apparent that the Victorian Government's decision regarding onshore exploration would not be made by 26 August 2016.
 - The Third Supplementary Prospectus was issued on 1 September 2016, following the Victorian Government's adverse decision, to afford subscribers a 30 day opportunity to redeem their Note subscriptions and obtain a refund.

- The Notes issue closed on 9 September and, on 16 September, 53,666 Notes (net of redemptions received to 16 September) were issued. Over the period to 3 October a further 9,367 redemption applications were received and, on 3 October, the Board placed 58,000 Notes. The final quantum of Notes issued was 102,299 with a value of \$1,022,990. Trading of Notes commenced on the ASX on 4 October 2016.
- The Board of Lakes Oil has the right until 9 December 2016 to make further placement(s) of unsubscribed Notes.
- Key features of the Notes issue include:
 - The issue price of each Note was \$10.00;
 - Interest will be paid twice annually (on 31 November and 31 May) on the Notes at a rate of 10% per annum;
 - Each Note will, upon the maturity date of 31 May 2018, convert into 9,091 shares provided however that, in the event the 30-day average closing price of the company's shares prior to the Maturity Date is less than 0.11 cents, then the number of shares issued upon conversion will be increased by an Uplift Factor to a maximum of 10,000 shares per Note;
 - Note holders have an option of early conversion (at 9,091 shares per Note) by notice given on an interest payment date;
 - The Notes are traded on the official list of the ASX as LKOGB.

Corporate Initiatives

- On 3 October 2016 Lakes Oil announced it had acquired a 4% interest in Navgas, a company with highly prospective exploration interests in both Queensland and South Australia.
- On 6 October Lakes Oil announced it had entered into a Heads of Agreement to acquire the remaining 96% of Navgas. Consideration for the acquisition is to be 9,600 million fully paid shares in Lakes Oil. The Navgas acquisition is subject to Shareholder approval. An Independent Expert (PKF) has been appointed to report to Shareholders on the fairness and reasonableness of the Navgas acquisition.
- It is envisaged Shareholder approval for the Navgas acquisition will be sought at the 2016 Annual General Meeting (AGM) of Lakes Oil. The company has received approval from the Australian Securities and Investments Commission (ASIC) for the AGM to be deferred to December 2016. Deferral of the AGM will allow time for:
 - completion by the Independent Expert of its report to Shareholders;
 - documentation to be submitted to ASIC in advance of it being provided to Shareholders; and
 - all meeting documentation to then be provided to Shareholders at least 30 days in advance of the deferred AGM.

By deferring the AGM to December the need for and cost of a separate Special General Meeting is avoided.

- On 6 October 2016 Lakes Oil also announced that, provided the Navgas acquisition proceeds, DGR has committed to provide a \$1.5 million underwriting for a future rights issue of shares. Details of the issue have yet to be formulated.
- The exploration acreage to be acquired through acquisition of Navgas will complement Lakes Oil's existing petroleum exploration acreage position in Victoria and Queensland. In view of the Victorian Government's adverse decisions to prohibit onshore exploration activity in

Victoria, the Navgas acreage will become the principal focus of Lakes Oil’s exploration effort over coming years. Brief details of the exploration acreage being acquired by Lakes Oil are set out below.

Pirie Torrens Basin Oil and Gas Project – South Australia

- The Pirie Torrens Oil and Gas Project incorporates six Petroleum Exploration Licence Applications (PELAs) located in South Australia and covering approximately 53,000km² as outlined in Figure 1. The project was originally generated by Navgas on the basis of its potential prospectivity for unconventional shale gas.

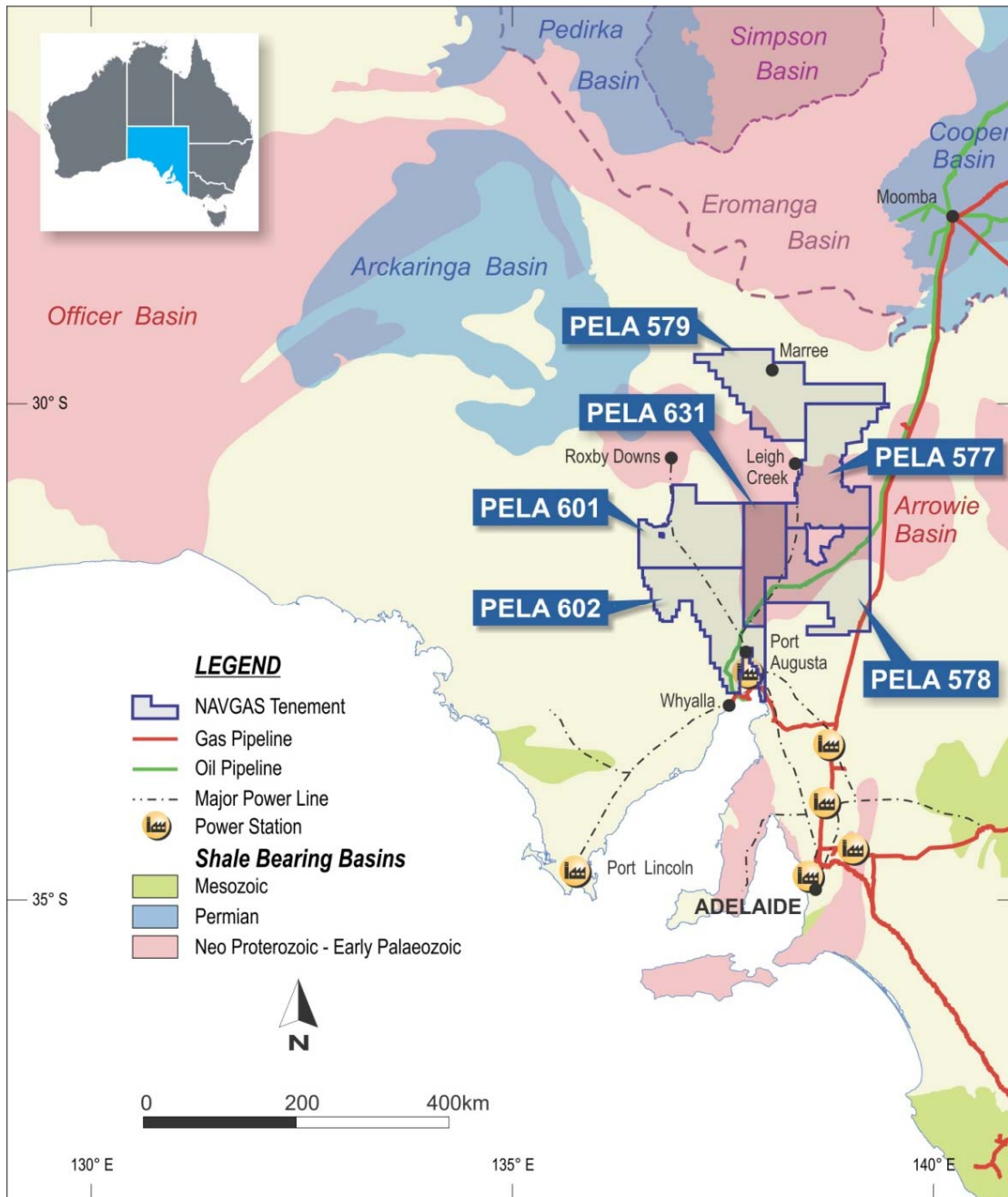


Figure 1: Pirie Torrens Project area in South Australia held by NavGas

- As part of a detailed review by Navgas of historical data for the South Australian shale gas project applications, records of an area of historic oil shows extending over 70km² at Wilkatana (within PELA 631) have been revealed. It is understood that this area has subsequently remained unexplored for the past 50 years (refer Figure 2).

- The Wilkatana area appears to represent a super-giant Cambrian aged oil field which has been breached by erosion. Oil and gas shows occur in Cambrian reef limestones and adjacent Proterozoic aged Pound Quartzite and overlying Tertiary sediments.
- The area to the north over the Torrens Hinge Zone covers an area of 2,200km² and plunges at a shallow angle to the north with potential for additional traps in Cambrian reef limestones and Proterozoic sandstone units in fold closures at the Torrens Hinge Zone and against Cambrian salt diapirs.
- The Arrowie Basin, east of Lake Torrens, forms part of the Proterozoic - Cambrian aged Centralian Basin Group which in turn formed an element of an important transglobal equatorial generative oil field trend in the Proterozoic and Cambrian times (1.2bn to 600m years ago). This trend hosts important oilfields in the Sichuan Basin of southern China, the multibillion Barrel oil field at Talakan in Siberia and large oil fields in Oman. Similar dispositional conditions in the Arrowie basin underwrite the areas oil productivity, as evidenced by the Wilkatana project

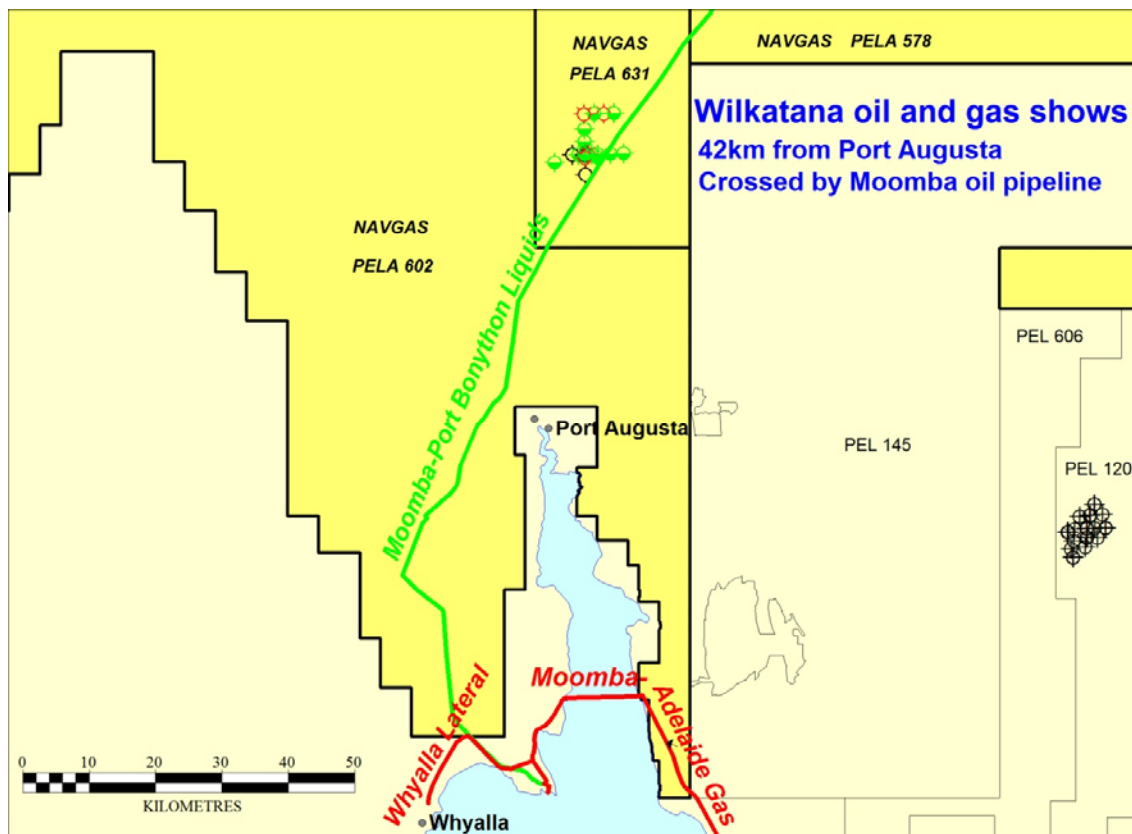


Figure 2: Location Map – Wilkatana oil field, South Australia

- The Pirie Torrens Basin project area is favourably located adjacent to gas pipeline infrastructure and is positioned to take advantage of expected increases in local demand for gas in the eastern and southern states of Australia in the next five plus years, particularly given the gas exploration bans imposed in Victoria.

Roma Shelf Oil and Gas Project - Queensland

- During 2014 Navgas was successful in tendering for ATP 1183 on the Roma Shelf in Queensland, which is considered highly prospective for oil, gas and condensate targets. The granted tenement area surrounds the Riverslea Oil Field and Major Gas/Condensate Field, both of which are excluded from the permit under Petroleum Leases (refer Figure 3).

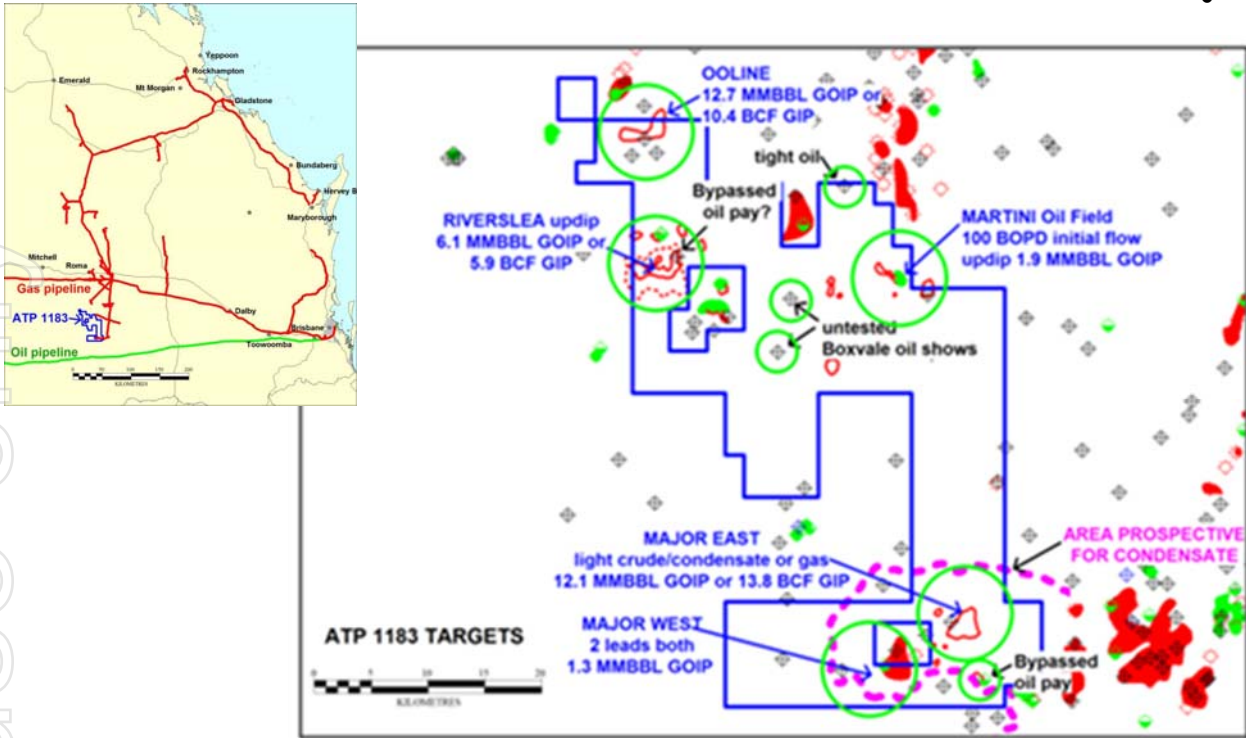


Figure 3: Location Map and Targets for the Roma Shelf project (ATP 1183)

- Based on a reinterpretation of the existing seismic database and an analysis of petroleum wells drilled by previous explorers, Navgas considers that several promising conventional petroleum targets appear to exist within the Roma Shelf Project.
- The Roma Shelf Project is situated in an area with established production facilities and infrastructure, and is well serviced by existing gas pipelines.
- In 2015, Navgas was successful in having the tenure period for the Roma Shelf automatically extended from four to six years under amendments made to Queensland's Petroleum and Gas (Production and Safety) Act.
- The Roma Shelf Project area has not been subject to modern exploration or 3D seismic techniques. Notwithstanding this, the success rate for all wildcat drilling in the area has been 37% for wells drilled on structural closure, which is considered high by industry standards.
- The Roma Shelf has spawned many oil and gas producers in the past, including Hartogen, Crusader Oil, Beach Petroleum, Bridge Oil and AOG.
- It is anticipated that gas shortages in Queensland, as a result of gas demand for export LNG projects, along with regulatory impediments in NSW and Victoria will result in sustained high gas prices in Eastern Australia over the next 10 years.

EXPLORATION ACTIVITIES

Onshore Victoria

PEPs 163, 167 and 175, Otway Basin (Lakes Oil: Operator, 100% interest)

PEP169, Otway Basin (Lakes Oil: Operator, 49% interest)

PRL2, Gippsland Basin (Lakes Oil: Operator, varying interest across permit - subject to reserved rights)

PRL3, Gippsland Basin (Lakes Oil operator, 100% interest)

PEP166, Gippsland Basin (Lakes Oil: Operator; 75% interest)

- In view of the Victorian Government's adverse decisions there was no new exploration activity within Victoria during the current Quarter.

Near-shore Victoria (Gippsland Basin)

VIC/P43(V) and VIC/P44(V) (Lakes Oil: Operator, 100% interest)

- For cost efficiency reasons it is desirable that work within these permit areas be coordinated with onshore activity.
- In view of the Victorian Government's adverse decisions there was no new exploration activity within Victoria during the current Quarter.

Queensland, Eromanga Basin

ATPs 642P and 662P (Lakes Oil: Operator, 100% interest)

- Lakes Oil is seeking a joint venture partner for pursuit of its Queensland opportunities.

Eagle Prospect, Onshore California, USA

(Lakes Oil: 17.97% interest. Operator: Strata -X Inc.)

- The Eagle Prospect contains the Mary Bellochi-1 well, which was drilled in 1986 by Lakes and its joint venture partners, and flowed oil to surface for several weeks before withering out. Indications at the time were that failure of the well was the result of a mechanical problem, rather than oil ceasing to be present.
- Drilling of the Shannon-1 well, to be located close to the Mary Bellochi-1 well location, is proposed. The well will be a near-offset appraisal of the P90 reserves, estimated at 1.2 MMBbl (oil) and 3.8 Bcf (gas). Drilling is planned, but not confirmed, pending rig availability.

Victorian Coal Exploration Leases

ELs 5333, 5334 and 5394 (Commonwealth Mining Pty Ltd, 100%)

- Commonwealth Mining Pty Ltd is a wholly owned subsidiary of Lakes Oil NL.
- No exploration activities were undertaken during the Quarter.
- Relinquishment of these permits is in progress.



Roland Sleeman
Chief Executive Officer

Lakes Oil NL Tenement holding summary

Below is a listing of the tenements held by Lakes Oil NL as at 30 September 2016:

| Joint operation or Permit name | Location (basin name) | Interest owned % | Interest acquired/farmin during the quarter | Interest disposed/farmout during the quarter |
|--------------------------------|-----------------------|------------------|---|--|
| PEP 163 | Otway | 100.00 | - | - |
| PEP167 | Otway | 100.00 | - | - |
| PEP 169 | Otway | 49.00 | - | - |
| PEP175 | Otway | 100.00 | - | - |
| PRL 2–Overall Permit | Gippsland | 100.00 | - | - |
| PRL 2–Trifon Field | Gippsland | 57.50 | - | - |
| PRL 3 | Gippsland | 100.00 | - | - |
| PEP 166 | Gippsland | 75.00 | - | - |
| VIC/P43(V) | Gippsland | 100.00 | - | - |
| VIC/P44(V) | Gippsland | 100.00 | - | - |
| ATP642P | Eromanga/Cooper E | 100.00 | - | - |
| ATP662P | Eromanga/Cooper E | 100.00 | - | - |
| Eagle Prospect | California USA | 17.96 | - | - |
| EL5333 * | Gippsland | 100.00 | - | - |
| EL5334 * | Gippsland | 100.00 | - | - |
| EL5394 * | Gippsland | 100.00 | - | - |

*The company lodged relinquishment applications with the department during the quarter and expects the applications to be finalised in the coming quarter.

Appendix 5B

Mining exploration entity and oil and gas exploration entity quarterly report

Introduced 01/07/96 Origin Appendix 8 Amended 01/07/97, 01/07/98, 30/09/01, 01/06/10, 17/12/10, 01/05/13, 01/09/16

Name of entity

LAKES OIL NL

ABN

62 004 247 214

Quarter ended ("current quarter")

30 SEPTEMBER 2016

| Consolidated statement of cash flows | Current quarter \$A'000 | Year to date (3 month's) \$A'000 |
|---|----------------------------|--|
| 1. Cash flows from operating activities | | |
| 1.1 Receipts from customers | - | - |
| 1.2 Payments for | | |
| (a) exploration & evaluation | (131) | (131) |
| (b) development | - | - |
| (c) production | - | - |
| (d) staff costs | (151) | (151) |
| (e) administration and corporate costs | (610) | (610) |
| 1.3 Dividends received (see note 3) | - | - |
| 1.4 Interest received | 1 | 1 |
| 1.5 Interest and other costs of finance paid | - | - |
| 1.6 Income taxes paid | - | - |
| 1.7 Research and development refunds | - | - |
| 1.8 Other (provide details if material) | - | - |
| 1.9 Net cash from / (used in) operating activities | (891) | (891) |
| 2. Cash flows from investing activities | | |
| 2.1 Payments to acquire: | | |
| (a) property, plant and equipment | - | - |
| (b) tenements (see item 10) | - | - |
| (c) investments | - | - |
| (d) other non-current assets | - | - |

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Mining exploration entity and oil and gas exploration entity quarterly report

| Consolidated statement of cash flows | | Current quarter \$A'000 | Year to date (3 month's) \$A'000 |
|---|--|------------------------------------|---|
| 2.2 | Proceeds from the disposal of: | | |
| | (a) property, plant and equipment | - | - |
| | (b) tenements (see item 10) | - | - |
| | (c) investments | 750 | 750 |
| | (d) other non-current assets | - | - |
| 2.3 | Cash flows from loans to other entities | - | - |
| 2.4 | Dividends received (see note 3) | - | - |
| 2.5 | Other (provide details if material) | - | - |
| 2.6 | Net cash from / (used in) investing activities | 750 | 750 |
| 3. | Cash flows from financing activities | | |
| 3.1 | Proceeds from issues of shares | - | - |
| 3.2 | Proceeds from issue of convertible notes | 514 | 514 |
| 3.3 | Proceeds from exercise of share options | - | - |
| 3.4 | Transaction costs related to issues of shares, convertible notes or options | (2) | (2) |
| 3.5 | Proceeds from borrowings | - | - |
| 3.6 | Repayment of borrowings | - | - |
| 3.7 | Transaction costs related to loans and borrowings | - | - |
| 3.8 | Dividends paid | - | - |
| 3.9 | Other (interest on borrowings) | (31) | (31) |
| 3.10 | Net cash from / (used in) financing activities | 481 | 481 |
| 4. | Net increase / (decrease) in cash and cash equivalents for the period | | |
| 4.1 | Cash and cash equivalents at beginning of period | 762 | 762 |
| 4.2 | Net cash from / (used in) operating activities (item 1.9 above) | (891) | (891) |
| 4.3 | Net cash from / (used in) investing activities (item 2.6 above) | 750 | 750 |
| 4.4 | Net cash from / (used in) financing activities (item 3.10 above) | 481 | 481 |
| 4.5 | Effect of movement in exchange rates on cash held | - | - |
| 4.6 | Cash and cash equivalents at end of period | 1,102 | 1,102 |

| 5. Reconciliation of cash and cash equivalents at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts | Current quarter \$A'000 | Previous quarter \$A'000 |
|--|------------------------------------|-------------------------------------|
| 5.1 Bank balances | 851 | 611 |
| 5.2 Call deposits | 151 | 151 |
| 5.3 Bank overdrafts | - | - |
| 5.4 Other (funds held on trust) | 100 | - |
| 5.5 Cash and cash equivalents at end of quarter (should equal item 4.6 above) | 1,102 | 762 |

| 6. Payments to directors of the entity and their associates | Current quarter \$A'000 |
|--|------------------------------------|
| 6.1 Aggregate amount of payments to these parties included in item 1.2 | 227 |
| 6.2 Aggregate amount of cash flow from loans to these parties included in item 2.3 | - |
| 6.3 Include below any explanation necessary to understand the transactions included in items 6.1 and 6.2 | |

Included in the amount listed above are termination benefits paid out to the former chairman of the company.

| 7. Payments to related entities of the entity and their associates | Current quarter \$A'000 |
|--|------------------------------------|
| 7.1 Aggregate amount of payments to these parties included in item 1.2 | - |
| 7.2 Aggregate amount of cash flow from loans to these parties included in item 2.3 | - |
| 7.3 Include below any explanation necessary to understand the transactions included in items 7.1 and 7.2 | |

Nil

Mining exploration entity and oil and gas exploration entity quarterly report

| 8. Financing facilities available <i>Add notes as necessary for an understanding of the position</i> | Total facility amount at quarter end \$A'000 | Amount drawn at quarter end \$A'000 |
|--|--|---|
| 8.1 Loan facilities | 1,000 | 1,000 |
| 8.2 Credit standby arrangements | - | - |
| 8.3 Other (please specify) | - | - |
| 8.4 Include below a description of each facility above, including the lender, interest rate and whether it is secured or unsecured. If any additional facilities have been entered into or are proposed to be entered into after quarter end, include details of those facilities as well. | | |

On 5 April 2016, Lakes Oil NL fully owned subsidiary drew down a \$1,000,000 loan secured by a mortgage over land that it owns. The loan is repayable 12 months from the commencement date and Lakes Oil NL is guarantor for the loan.

| 9. Estimated cash outflows for next quarter | \$A'000 |
|--|------------|
| 9.1 Exploration and evaluation | 45 |
| 9.2 Development | - |
| 9.3 Production | - |
| 9.4 Staff costs | 200 |
| 9.5 Administration and corporate costs | 250 |
| 9.6 Other (provide details if material) | - |
| 9.7 Total estimated cash outflows | 495 |

| 10. Changes in tenements (items 2.1(b) and 2.2(b) above) | Tenement reference and location | Nature of interest | Interest at beginning of quarter | Interest at end of quarter |
|--|---------------------------------|---|----------------------------------|----------------------------|
| 10.1 Interests in mining tenements and petroleum tenements lapsed, relinquished or reduced | EL5333* | Interest held through the companies 100% wholly owned subsidiary. | 100% | - |
| | EL5334* | | 100% | - |
| | EL5394* | | 100% | - |
| | EL5442* | | 100% | - |
| 10.2 Interests in mining tenements and petroleum tenements acquired or increased | - | - | - | - |

*The company lodged relinquishment applications with the department during the quarter and expects to the applications to be finalised in the coming quarter.

Compliance statement

- 1 This statement has been prepared in accordance with accounting standards and policies which comply with Listing Rule 19.11A.
- 2 This statement gives a true and fair view of the matters disclosed.

Sign here:



Date: 26 OCTOBER 2016

Company Secretary

Print name:

MELANIE LEYDIN

Notes

1. The quarterly report provides a basis for informing the market how the entity's activities have been financed for the past quarter and the effect on its cash position. An entity that wishes to disclose additional information is encouraged to do so, in a note or notes included in or attached to this report.
2. If this quarterly report has been prepared in accordance with Australian Accounting Standards, the definitions in, and provisions of, AASB 6: Exploration for and Evaluation of Mineral Resources and AASB 107: Statement of Cash Flows apply to this report. If this quarterly report has been prepared in accordance with other accounting standards agreed by ASX pursuant to Listing Rule 19.11A, the corresponding equivalent standards apply to this report.
3. Dividends received may be classified either as cash flows from operating activities or cash flows from investing activities, depending on the accounting policy of the entity.